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TRADING STAMPS *and the Consumer's* FOOD BILL



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Foreword

This is the second report issued by the Agricultural Marketing Service on the effect of the use of trading stamps by grocers on marketing practices, costs, and efficiency.

The first report, "Do Trading Stamps Affect Food Costs?" issued in January 1957 explained the basic characteristics of trading stamp plans and reviewed and discussed available information on the development and use of trading stamps as well as some of the relevant issues and economic problems facing retailers and consumers as a result of their widespread use. Copies of this first report, Marketing Research Report No. 147, are available upon request from the U. S. Department of Agriculture, Office of Information, Washington 25, D. C.

This second report considers chiefly information available from non-Government sources concerning the response to and economic implications of trading stamp plans. It relates specifically to consumers.

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TRADING STAMPS AND THE CONSUMER'S FOOD BILL

Prepared by

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One of the most controversial issues in today's fight for the consumer's dollar is the use of trading stamps. Discussions of this subject, either pro or con, have often been somewhat emotional in nature. This report, dealing with these "little pieces of gummed paper," is an attempt at an objective presentation of the effect of this promotional device on consumers.

Trading stamps have been given by stores since the end of the last century. Their importance, however, appears to run in cycles, reaching a peak during periods of keen competition. Stamps gained prominence during the years of depression when incomes were reduced and each business was competing vigorously to keep up its sales. Today, with incomes at an alltime high, competition for the consumer's dollar is again intense. Almost every type of business is offering lures of some kind—T. V. giveaways, door prizes, trips, coupons with which items can be purchased at a reduced price, and many kinds of special sales.

Changes in the Food Business

Traditionally, grocers have not used as many promotional devices as other merchants, although today they appear to be using them in ever-increasing numbers. This greater use has been caused by several factors. Among these is the fact that the retail food business is rapidly becoming a big business.

The average size of retail grocery stores has increased so much that between 1948 and 1954 the number of stores with annual sales of over a million dollars more than tripled (26).¹ Though these supermarkets still represent a small percentage of the total number of grocery stores, they account for almost a third of total food sales.

To maintain the high volume necessary to successful operation, supermarkets have had to adopt big business methods. In early attempts to obtain volume, they stressed lower prices. These were effective against smaller stores but, as time went on and other supermarkets became the chief competitors, price differentials quickly narrowed. Other devices were then tried—larger and more attractive stores, air-conditioning, a greater variety of items including many nonfood items, parking lots, longer store hours, and check-cashing services. As these changes in practices, facilities, or services became more generally adopted, they, too, lost much of their promotional value.

It was at about this point that trading stamps again began to assume importance and, today, they are given by stores in all parts of the country. The use of trading stamps was initially more prevalent in the East and Midwest but, in the last year or so, the practice has rapidly spread to almost all sections

¹ Italic numbers in parentheses refer to items in Bibliography, p. 8.

of the country. In addition to numerous independent supermarkets, superettes, and small chain groceries, several of the largest chains are now issuing stamps in some cities.

Characteristics of Trading Stamps as a Promotional Device

Stamp companies usually license only one store of a kind within the same shopping area. This one retailer then has a promotional device that cannot be duplicated exactly by nearby competing food stores. Others can use a different kind of stamp, but stamp plans vary considerably in appeal and merit. Hence, the first grocer to adopt the practice generally has the advantage provided he has selected a leader in customer preference.

In many instances, the first dealer to use trading stamps has increased his volume of business significantly at the expense of competitors not giving stamps. Nonstamp-giving food stores have tried various appeals in an attempt to regain customers. One of the more usual lines of attack has been to emphasize the cost of trading stamps and to suggest that, because consumers finally pay the marketing bill, this added cost must also be paid by them. This attack is usually met by stores giving stamps with the claim that the cost is not being passed on, and that consumers are getting the equivalent of a cash discount.

Probably some consumers would be willing to forego all promotional efforts if this meant lower prices, but if such efforts are a part of modern-day merchandising, trading stamps may have a broader appeal than some other forms of promotion, as trips to Europe or door prizes. Such promotions are for the lucky few while trading stamps promise a tangible return to all who save them.

Consumers' Attitudes Toward Stamps

Most surveys made to determine reactions to trading stamps have shown that in localities where stamps are available, the majority of consumers save them. Two studies made late in 1956 showed that about 83 percent of all families in a midwestern city (16) were saving stamps, as were about the same proportion in a city in New York State (2). It is estimated that in 1956 about half of all families in the United States are saving trading stamps (20).

Another bit of evidence of consumer interest in trading stamps was provided during the 1956 election. One State passed a law that required payment of an annual license fee of \$6,000 by any store issuing trading stamps. Enough consumers were unhappy about the law that it had to be included on the ballot for referendum. Some consumers were sufficiently disturbed to make public statements as, for example, "Selfish forces are trying to take away our right to save trading stamps (30)." Voters defeated this proposal by more than a 2 to 1 margin.

Bills have been introduced in many State legislatures which would, in effect, practically legislate or tax trading stamps out of existence. In 1955, 50 such bills were introduced in 24 State legislatures. However, only 2 of these were passed and neither is in effect today.

Though studies have shown that consumers are interested in saving stamps, they also have shown that stamps are seldom given as the main reason for shopping at a particular grocery store. Consumers say they choose food stores chiefly for convenience, quality of food sold (particularly meats), prices, and the kind of services offered. Only a very small percentage gave trading

stamps as the principal reason for patronizing a particular store.

Consumer interest in saving stamps varies greatly in intensity. Some consumers approach stamp-saving with great enthusiasm, some can take it or leave it, and still others are antagonistic to the whole idea. The preliminary report of a current study (16) shows that the highest proportion of stamp savers are young married couples less than 40 years of age with 2 or more children, living in suburban areas and having incomes in excess of \$3,000 a year. Consumers in this category, to a great extent, are the ones having the largest amount of personal debt. An article published late in 1956 on the use of consumer credit states that "consumers in the middle- and upper middle-income groups are most likely to have such debts . . . These middle-income groups include many young couples with children who seem to have an almost insatiable capacity to consume the goods credit will buy and enough optimism to make them willing to take on debts . . . Having children in the family not only increases the need for credit by increasing the number and quantity of goods and services required for living; it also increases the pressure to buy goods that may not be considered exactly essential (14)."

The insatiable desire of these young, middle-income families for more and more possessions may be an important underlying force that stimulates their interest in trading stamps. Though in debt, these families can save stamps and acquire still more goods without apparent expenditure of money.

Other reasons have been put forth for the appeal of trading stamps. One of these is that the accumulation of stamps satisfies the desire to save which still seems to be strong in our society. Also, stamp-saving makes consumers feel thrifty. Another reason sometimes given is

that when consumers redeem stamp books for merchandise, they seem to get a great sense of satisfaction at having attained a goal.

Consumers appear to have varying opinions about and reactions to the effect of trading stamp plans on prices of food. In one study, about a third of the families interviewed thought prices of food had been increased by stores giving stamps, whereas almost half did not think so (16). Families actively interested in saving stamps were less likely to think that stamps had increased food prices and appeared less concerned about any change that may have taken place than did those with less interest in saving stamps.

Returns Consumer Gets for Stamps

Though some retailers redeem stamp books with cash or with merchandise from their store, more often stamps are exchanged for merchandise or gifts provided by the stamp company. These are usually articles of popular brands that range in appeal from personal items for each member of the family to household items that all can enjoy. They include articles that classify as necessities as well as those that are luxuries.

Recent catalogs from 2 leading stamp companies each offered a choice of about 500 items. Between two-thirds and three-quarters of these required from 1 to 3 books of stamps. Items offered in the 2 catalogs were very similar, but few appeared to be identical. If the item offered were a percolator, for example, the brands might differ. Or articles might be of the same make but of different size or with more or less trim. For the few items that could be identified as being the same or very nearly so, the number of stamps needed was the

same even though the number of stamp books required was different.

Some stamp companies' catalogs have terminal dates and a new issue may have a different assortment of items or the same item may require a different number of books. In catalogs for the same company for 2 consecutive time periods, about a third more items were offered in the later catalog than in the earlier one. Of the 125 items that could be reasonably well identified as the same, 48 percent required the same number of books in both catalogs; 40 percent called for a larger number of books in the later catalog and 12 percent called for fewer. By and large, consumers appear to be satisfied with merchandise or gifts offered in exchange for trading stamps. Seventy-five percent of the persons interviewed in a recent study (16) indicated they were satisfied; 23 percent could not answer as they had not redeemed any stamps. Only 2 percent stated definite dissatisfaction. Reasons given for dissatisfaction were changes in number of books required, the article wanted was out of stock at redemption store, and the merchandise obtained seemed a small return for length of time required to fill the books.

If stamps were available only at a food store, it would take the average urban family who spends about \$25 a week for food consumed at home about 5 to 6 weeks to fill a book of 1,500 stamps provided all food items were bought at the same store or at a store issuing the same brand of stamps (15). Thus, it would take from 5 to 18 weeks for such a family to save enough stamps to obtain any one of the majority of the items offered in the catalogs. In a recent catalog, to accumulate enough stamps to obtain the merchandise that required the largest number of books would take

such a family around 2 $\frac{1}{4}$ years and an expenditure of about \$3,000. These calculations are based on stamps being obtained for every purchase. At times, however, a consumer may forget to get them. Then, too, some stores give stamps only on request or only for certain kinds of purchases.

Stamps are generally given for multiple amounts of 10 cents. In actual practice, therefore, the period required to fill a book of stamps may be longer than the 5 to 6 weeks indicated above.

On the other hand, stores may give double or even triple amounts of stamps to stimulate trade on slow days. Also, it is fairly common for other types of businesses in the same market area to give the same kind of stamps. If this happened to include a gasoline station, for example, a book would be completed in a shorter period of time.

Money Value of Stamp Books

Some consumers have little concept of the money value of a book of stamps. According to a recent study, about 45 percent of those interviewed said they didn't know. Others gave amounts ranging from \$1 to more than \$8 a book (16).

Stamp savers appeared to have a better idea of the money value of a book of stamps than nonsavers. Although about a third of those saving stamps gave no estimate of the value of a book of stamps, almost half estimated it to be worth between \$2 and \$4. This range seems to be in line with available information considering the variation in value per book of stamps even among redemption merchandise offered by the same stamp company.

Some indication of money values and differences in such values can be gained from a small pricing study made in Washington, D. C.,

in November 1956.² About 25 articles shown in a stamp company's catalog that could be reasonably well identified were priced in 4 large department stores and in 13 discount houses. Merchants in the District of Columbia do not have to follow manufacturers' list prices but, because dealers in many States do, such prices were included for comparison whenever available.

The items selected for pricing were those most likely to be found in department stores and discount houses. As a result, proportionately more electrical appliances and housewares were included in the list priced than are usually found in trading stamp catalogs. This bias does not appear to be too important as such articles are among the most popular with consumers. Though all items were not available in all stores, several prices were obtained for most of them.

The number of books of 1,500 stamps required to obtain the items priced ranged from 1 to approximately 13 with about half calling for less than 3 books. The prices collected were averaged by type of outlet from which they were obtained—department stores and discount houses. To estimate the dollar value of a book of stamps, these average prices were divided by the number of books required for the particular item. For example, if the retail list price for an electrical appliance is \$17.95 and it can be redeemed for $4\frac{1}{2}$ books, 1 book would be equivalent to \$3.74 or, assuming an expenditure of \$150, a maximum return of about $2\frac{1}{2}$ cents for each dollar spent to fill a book of stamps.

This small study shows the possibility of wide variation in the money value of a book of trading stamps (table 1). For example, based on manufacturers' list prices, the value of a book of stamps

ranged from \$3.42 to \$5.22 with a median value of \$3.74. This median value indicates that half of the items priced gave a return of between \$3.42 and \$3.74 and half between \$3.74 and \$5.22.

The percentage return based on an expenditure of \$150 ranged from 2.31 to 3.48 percent for manufacturers' list prices and from 1.55 to 2.29 percent for discount house prices. If more than \$150 worth of store purchases were required to fill a book of stamps, obviously the return would be lower.

Similar studies made in other cities have shown essentially the same variation.

Implications to Consumer

Though it is difficult to show conclusively whether consumers are getting a bargain via trading stamps or are paying a premium for food, there are a number of things that can be considered in any attempt to evaluate a specific situation.

First, maintaining a trading stamp plan is an expense to a food merchant. It has been estimated that, on the average, the merchant pays about $2\frac{1}{2}$ percent of his gross sales to the stamp company for the right to issue stamps, and for stamps, stamp books, and some advertising. In addition, dealers may incur other expenses, at least during the introductory stage. With the comparatively low markups on most foods, an extra cost of this magnitude must be offset in some way.

There are ways in which such costs may be partially or wholly offset without raising prices. These include, for example, reduction of unit costs by substantially increasing the quantity of merchandise sold, reduction of other forms of promotion, and stocking items other than food that have higher markups.

²This study was made by a member of the Market Organization and Costs Branch, Agr. Mktg. Serv.

TABLE 1.—Average dollar value per book of stamps and rate of return on \$150 expenditure based on manufacturers' list prices and average department and discount house prices, Washington, D. C., November 1956

Item	Stores giving prices	Dollar value per book of stamps based on average—			Average rate of return ¹		
		List prices	Depart- ment store ² prices	Discount house prices	List prices	Depart- ment store ² prices	Discount house prices
		Dollars	Dollars	Dollars	Percent	Percent	Percent
Portable mixer-----	13	3.74	2.53	2.40	2.49	1.69	1.60
Automatic toaster (A)-----	12	3.74	2.53	2.51	2.49	1.69	1.67
Automatic toaster (B)-----	5	3.74	2.70	2.70	2.49	1.80	1.80
Steam-dry iron-----	14	3.74	2.46	2.45	2.49	1.64	1.64
Roaster oven-----	6	3.46	2.63	2.45	2.31	1.75	1.63
Aluminum 4½ qt. dutch oven-----	3	-----	4.07	-----	-----	2.71	-----
Dictionary-----	2	-----	3.33	-----	-----	2.22	-----
All items priced-----	25	-----	-----	-----	-----	-----	-----
Median value-----	-----	3.74	2.98	2.51	2.50	1.99	1.67
Range in value-----	-----	3.46-5.22	1.70-4.25	2.32-3.44	2.31-3.43	1.13-2.83	1.55-2.29

¹ Based on a rate of 1 stamp for each 10-cent expenditure of \$150 to fill a book of 1,500 stamps.

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² Do not have to maintain manufacturers' list prices.

Though many retailers experience an increase in sales following the introduction of a stamp plan, the size of this increase can vary greatly. The first dealer in his immediate trade area to introduce stamps may have an increase in sales that will more than meet the entire cost of stamps. On the other hand, if the grocer already has a large share of his possible customers, there may be little or no increase in sales. Then, too, even though sales increase at first, they may not continue to do so if competing stores adopt trading stamps. In instances such as these last two cases, unless a retailer can save in other ways, all or part of the cost of the stamp plan must be passed on as higher prices, or he will have to take smaller profits or even a loss.

If any cost is passed on through increased prices, consumers may not share it equally. Those who do not save stamps may be paying part of the bill for those who do. Or if prices are raised only on luxury foods, the burden of cost may fall to a larger extent on those buying such products. Even if the entire cost of the stamp plan is passed on, again consumers may not be equally affected. In a recent study (16) in which many items commonly offered as redemption merchandise were priced, it was found that if prices

were raised enough to cover the cost of a stamp plan (2½ percent of gross sales) a consumer purchasing an article at manufacturers' list price would be buying it on what amounts to a prepayment plan. If the item could be purchased at discount prices, a loss to the consumer would result. This statement is based on an average return and, because there is great variation in returns depending on the redemption merchandise selected, again an individual consumer may be affected differently.

Until more information is available on the effect of trading stamp plans on prices of foods purchased, no generalization can be drawn as to whether a consumer gets something for nothing, pays part, all, or even more than the cost of similar merchandise purchased for cash. It can vary from community to community, from store to store within the same community, and even within the same store at different periods of time. Hence, a trading stamp company's catalog or the redemption center should be shopped as carefully as if a cash purchase were being made. Consumers will have to evaluate grocery store prices and the merits of merchandise obtained for stamps the same as they would in any other buying situation.

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